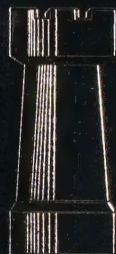


Annual Report 1980



CITADEL GOLD MINES INC.
Part of a North American Resource Team

*"Citadel Gold Mines Inc. and its parent company,
Prairie Pacific Energy Corporation, are North American
resource developers based in Canada . . .
. . . this is the 1980 chapter in our story."*

CITADEL

This report to the shareholders for the year ended September 30, 1980 is presented on behalf of the directors by R. Campbell Todd, president, Citadel Gold Mines Inc.

Officers

R. Campbell Todd
President
Calgary, Alberta

Ramon Hugo
Vice-president
Calgary, Alberta

Steve Lightburn
Secretary
Vancouver, B.C.

Directors

R. Campbell Todd
Calgary, Alberta

John Cureitz
Wawa, Ontario

Thomas Robert Hambley
Toronto, Ontario

John E. Londry
Toronto, Ontario

Allan J. Pope
Toronto, Ontario

Lawyers

Davies, Ward & Beck
Toronto, Ontario

Trust Agent

Canada Trust
110 Yonge Street
Toronto, Ontario

Registered Office

Davies, Ward & Beck
Commerce Court West
Toronto, Ontario

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For Further Investment Information:

R. Campbell Todd, President
Citadel Gold Mines Inc.
Suite 540, Parkside Place
602 - 12th Avenue S.W.
Calgary, Alberta
T2R 0H5
(403) 263-7274



1980 ACHIEVEMENTS

1. We successfully completed a corporate reorganization which freed the company from debt. This accomplishment left us free to seek financing to put the 950-foot underground mine on production, and to operate our mill facility both for ourselves and other customers.
2. We changed our name to Citadel Gold Mines Inc. from Pursides Gold Mines Limited, and consolidated our common shares on a 1 for 3 basis. The new name reflects our belief that gold is an investment refuge in a time of international economic uncertainty.
3. We reduced the company's current debt from \$1.3 million to just over \$70,000 and slashed our obligations to our parent, Prairie Pacific Energy Corporation, from \$1.1 million to just over \$170,000.
4. Just prior to year-end, we successfully raised \$540,000 through a private placement of 325,000 of our shares at a price of \$1.75.
5. The market recognized our accomplishments by increasing the trading price of our shares from \$2.10 on a consolidated basis to a high of \$5.50.
6. Our shareholders enjoyed an increase in their equity from \$5.3 million to \$8.1 million.

1981 OBJECTIVES

1. We will continue an aggressive search for investors to raise capital in order to commence gold production.
2. We will commence custom milling work for customers with other mines. We have above ground 27,000 tons of broken ore stockpiled from the mine, and ready to be milled.
3. We will consider additional gold-related investments to broaden our revenue base.



CORPORATE REORGANIZATION

During the first nine months of fiscal 1980 we were able to complete a complex series of steps to reorganize the share capital of the company and to eliminate the debt and initiate the financing of gold production and milling at our established mine facility in Wawa, Ontario.

As a first step, the shares of the company were consolidated on a 1 for 3 basis, and the authorized share capital was increased to 10 million common shares. Shareholders may recall the consolidation and increase in authorized capital were approved at the last annual meeting.

The central transaction involved issuing our parent company, Prairie Pacific Energy Corporation a total of 1,728,000 common shares of Citadel in two stages.

Prairie Pacific received 1,056,000 shares in payment of \$1.32 million owed Prairie Pacific by Citadel. Subsequently, Prairie Pacific received an additional 672,000 shares for \$840,000 in cash, which was used to retire Citadel's bank debt.

As a consequence a strong North American resource team of Citadel and Prairie Pacific was created and these companies were left in a position free to seek major financing for Citadel's capital needs.

The accomplishment was marked by a change of name from Pursides Gold Mines Limited to Citadel Gold Mines Inc.

We immediately began to meet with investors from North America and Europe to seek financing for gold production and milling at the mine.

The restructured company had an increased shareholder equity of \$8.1 million, compared with \$5.3 million at the end of fiscal 1979.

Citadel's deficit remained unchanged for the year at \$424,272, however we had successfully

reversed our negative working capital position from a deficit of \$1.3 million at September 30, 1979 to a surplus of \$549,090 at September 30, 1980.

The market responded to Citadel's solvency, prior to the year-end, when we successfully raised \$540,312 net to the treasury from a private placement of 325,000 shares at \$1.75.

There has been considerable interest in our efforts to raise fully \$6 million required to start the operation of our mill and production of gold from the 950-foot deep mine, which now has development on seven levels. To date, some \$8.8 million in facilities have been installed. The remaining investment will capitalize on those facilities, and make several improvements which will increase the economic efficiency of mining and milling the 1.6 million ton established ore reserve. We also look forward to additional exploration work to extend the ore body for possible future reserves of recoverable gold.

The net effect of the year's work has been to carry us through a transition from a junior development company to an established mining and milling organization with the capability of expanding its resource and revenue base in future years.

We are encouraged to believe that the company's development will gather momentum in 1981 by an analysis of the Citadel mine's economics which shows the prospects of payout in less than a year for an investment of \$6 million.

Although Citadel is a 42 per cent joint venture partner in the mine, we own the mill outright, and we get the substantial benefit of early production revenues to payout.

THE EARNING POWER OF THE MINE AND MILL

Citadel's mine and mill are located on 40 contiguous claims at Wawa, Ontario. Citadel's 950-foot vertical shaft has developed drifts on seven levels. The body has been exhaustively studied. Consultants calculated that the ore body, which is open and capable of further reserves delineation, has established recoverable ore in the order of 1.6 million tons. In addition, 27,000 tons of ore has already been broken and stockpiled on the surface awaiting milling. The average grade of the ore, cut and diluted, is .138 ounces of gold per

ton, with bullion recovery of 93.9 per cent considered feasible.

At a gold price of \$550 per ounce, the recoverable gold, some 210,000 ounces, has a selling value of \$115 million.

Prior mining has resulted in the recovery of 3,089 ounces of gold which had a dollar value of \$116,783. This was accomplished with only 83 per cent recovery. The selling value of that gold, at current prices, would have been \$1.7 million.

CITADEL MINE: THE ECONOMICS

Tons per day	Cost per ton (1)	Cost per ounce Gold produced (2)	Ounces gold per year produced (3)	Value of production less production cost	Annual Value \$ Canadian	Payout of Investment (4) and (5) below
500	\$40	\$308	23,325	\$399 - \$305 = \$ 92	\$ 2,145,900	2.5 years
				\$600 - \$308 = \$292	\$ 6,810,900	.66 years
				\$650 - \$308 = \$342	\$ 7,977,150	.66 years
				\$700 - \$308 = \$392	\$ 9,143,400	.58 years
				\$750 - \$308 = \$442	\$10,309,650	.51 years
700	\$35	\$270	32,655	\$400 - \$270 = \$130	\$ 4,345,150	1.4 years
				\$600 - \$270 = \$330	\$10,776,150	.53 years
				\$650 - \$270 = \$380	\$12,408,900	.46 years
				\$700 - \$270 = \$430	\$14,041,650	.41 years
				\$750 - \$270 = \$480	\$15,674,400	.36 years

(1) Mine, Mill and Administration.

(2) .138 ounces per ton at 93.9 per cent recovery = .1296 ounces gold per ton or 7.72 tons per ounce gold produced.

(3) Ounces of gold produced per year at 500 tons per day - 23,325.

Ounces of gold produced per year at 700 tons per day - 32,655.

(4) Kilborn investment and working capital requirement, 500 tons per day \$5,355,900.

Kilborn investment and working capital requirement, 700 tons per day \$5,934,400.

THE MINE

We are advised that an investment of \$5.3 million is required, in addition to \$8.8 million already expended, to bring the mine on production.

As a result of the economic analysis presented above, the prospects for rapid payout on an investment of between \$5 - \$6 million are excellent. For a variety of scenarios, reflecting different gold prices, different costs per ounce of production, and different rates of production, payout in nearly every case is within less than one year.

This economic assessment is the cornerstone of our planning, and provides the incentives that will draw the necessary capital to our project in a timely fashion.

THE MILL

Citadel proposes to upgrade the efficiency of the mill by adding flotation and concentration equipment which have not been part of the operation to date. This will permit bullion recovery rates of 93.9 per cent.

Other operators in the area have already expressed an interest in becoming a customer for custom milling services using Citadel's facilities.

The government of Ontario has expressed interest in providing financing for one quarter to one third the cost of developing regional milling facilities which can provide custom services to several mines.

There are several proposed mine developments for the Wawa region which could become customers for our mill. Management's estimate is that an additional 3.6 million tons of ore averaging .1 ounce of gold per ton will be found within a 50-mile radius. These could create a milling demand far in excess of the present capacity.

As part of development work in 1981, we will be consulting with the Ontario government and other operators in the area, to develop a custom milling business. It is probable that milling operations could commence ahead of mining at the property.



MINE AND MILL LOCATION

The Citadel mine and mill are located two miles from the mining centre Wawa, Ontario, about 150 miles north of Sault Ste. Marie, on Lake Superior. The mine and mill is tied in to the Ontario Hydro electric power grid, and to required water supplies. An experienced mining labour force can be readily recruited from the vicinity. Wawa is serviced by major highway and rail facilities.

The underlying geology of the property is Pre-Cambrian, rich in gold-bearing host rocks.

The Wawa area enjoys a long and colourful gold mining history, and the 40 contiguous claims held by the Joint Venture have been the site of several simple mining efforts which pre-date modern cut-and-haul mining. These previous developments demonstrate the gold-rich nature of Citadel's properties, and raise the possibility of significant future reserves additions.



1. Hoist and Head Frame
2. Crusher House
3. Conveyer
4. Mill
5. Machine Shop
6. The Dry
7. Assay Lab
8. Mine Office
9. Broken Ore
(27,000 tons, .12 oz/ton = 3,240 oz)
10. Town of Wawa

THE MINE AND MILL SITE

The head frame straddles the 950-foot vertical shaft (1), which can be seen from downtown Wawa (10) just about 2 miles away. Some 27,000 tons of broken ore containing 3,240 ounces of recoverable gold have been removed from the shaft and seven levels of drift development, and await processing (9). The process to extract gold from broken ore begins in the crusher house (2), where the ore is ground into fine mesh, and conveyed (3) to the mill. Here, the gold is recovered by a combination of cyanidation and flotation technology.

The machine shop (5) is equipped to keep the mining and milling operation "on-line" with no need to delay for repairs off the site. The Dry (6) is a miner's facility for storing and drying gear, showering, and keeping lockers. The assay lab (7) provides constant monitoring of ore quality for both mining and custom milling operations. The administration office (8), centralizes the mine operation at the site. Replacement cost of these facilities is about \$20 million. An additional \$5 - \$6 million will bring the mine and mill on production at peak levels of efficiency.





THE WORLD GOLD PRICE TREND

During a short six-month period in 1980, from January to June, the world gold price escalated wildly from roughly \$500 to \$900 and back down to \$500. Before the year closed, the price had recovered to above \$600, but in January, 1981 the price tumbled again to hover at the \$550 level.

The market prices of shares in gold mining operations reflected these escalations, and betrayed considerable investor uncertainty over the value and future of gold as an investment.

Citadel's shares did not exactly conform to the pattern, because the corporate reorganization sustained interest and encouraged investment, so that the price reached \$4 per share from \$2.10 during the summer, then got as high as \$5 and never fell much below \$4 $\frac{1}{4}$.

Shareholders in Citadel, however, probably share the general market uncertainty with respect to gold as an investment.

The management holds to its long-standing conviction that gold increasingly during the current decade, will represent a refuge, a last bastion of security for prudent investors. We chose the name *Citadel* for the reorganized company precisely to reflect this belief.

The uncertain future of world oil trade, military tensions between the super powers and in localized disputes, the growing pressure on the world banking system created by inflation, and the rising oil and food import deficits of a growing number of poor and not-so-poor nations of the world: all of these developments preclude economic chaos in which gold will emerge as an increasingly valuable and even priceless investment.

In spite of fluctuations, the trend in world gold price over the past 10 years clearly demonstrates that the value of gold is rising in an

irreversible trend. At Citadel, we identify that trend by plotting not just changes in prices, but by plotting the lows to which gold price falls after each spectacular rise. The pattern indicates that, while gold prices do fall, often as dramatically as they rise, each successive low is always higher than the previous low.

On that basis, in spite of escalations in 1980 in the range of \$300 per ounce, the steady rise in price is on course with a trend that will see the price of gold surpass \$1,000 early in the decade, and rise to a level consistently above \$1,500 mid-way through the decade.

It is interesting to note that the rise of gold prices since 1920 corresponds, in Canadian gold mining, with the ability of mine operators to develop ore bodies of increasingly modest grades. This, in part, is related to the utilization of cost-efficient cut-and-haul modern mining technology. It is also consistent, however, with the established pattern of mining lower-grade ore bodies when prices are higher.

In 1920, the average ore grade of gold mined in the province of Ontario, where Citadel's mine is located, was .45 ounces per ton of gold. By 1970, when the price chart depicted here begins, the average grade of ore was .28 ounces per ton. In 1980, in the Wawa area around our mine, the average grade of ore bodies in some stage of planning for development is .1 ounce per ton cut and diluted. Although consultants establish our average ore grade at .138 ounces per ton, cut and diluted, even at a conservative .124 ounces per ton recovery. Citadel's ore body is clearly a sound investment in terms of both price trend, and the ability, at higher prices, to profitably extract gold.



THE WORLD GOLD PRICE TREND



CITADEL GOLD MINES INC.
(formerly Pursides Gold Mines Limited)

FINANCIAL STATEMENT
September 30, 1980

AUDITORS' REPORT

To the Shareholders of
Citadel Gold Mines Inc.

We have examined the statement of financial position of Citadel Gold Mines Inc. as at September 30, 1980 and the statements of deferred expenditures, income and deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion this financial statement presents fairly the financial position of the company as at September 30, 1980, its deferred expenditures, operations and its changes in financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
November 13, 1980

Flood, Ramsay & Co.
Chartered Accountants **9**

CITADEL GOLD MINES INC.
 (formerly Pursides Gold Mines Limited)
STATEMENT OF FINANCIAL POSITION

	September 30, 1980	September 30, 1979
ASSETS		
CURRENT ASSETS		
Cash	\$ 613,570	\$ 4,526
Prepaid expenses	214	1,272
Accounts receivable	6,082	—
	<u>619,866</u>	<u>5,798</u>
MINING CLAIMS — Note 3	142,826	142,826
BUILDING, MACHINERY AND EQUIPMENT	1,705,585	1,705,585
DEFERRED EXPENDITURES		
Exploration and development	4,112,482	4,106,727
Administrative	1,687,119	1,965,985
	<u>5,799,601</u>	<u>6,072,712</u>
INCORPORATION AND RE-ORGANIZATION COSTS	64,169	46,714
	<u>\$8,332,047</u>	<u>\$7,973,635</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES		
Bank indebtedness — Note 2	\$ —	\$ 820,211
Accounts payable and accrued liabilities	70,776	561,163
	<u>70,776</u>	<u>1,381,374</u>
DUE TO PARENT COMPANY — Note 4	172,229	1,231,969
SHAREHOLDERS' EQUITY		
Share capital — Notes 2 and 5	8,513,314	5,784,564
Deficit	(424,272)	(424,272)
	<u>8,089,042</u>	<u>5,360,292</u>
	<u>\$8,332,047</u>	<u>\$7,973,635</u>

On behalf of the board:

R. Campbell Todd, Director

T. R. Hambley, Director

See accompanying notes

CITADEL GOLD MINES INC.

(formerly Pursides Gold Mines Limited)

STATEMENT OF DEFERRED EXPENDITURES

	Year ended September 30, 1980	Year ended September 30, 1979
EXPLORATION AND DEVELOPMENT COSTS		
Balance beginning of year	\$4,106,727	\$4,106,727
Additions during the year		
Salaries and employee benefits	5,065	—
Licenses, taxes and assessments	2,005	—
Utilities	671	—
Insurance	150	—
Other	38	—
	7,929	
Less: costs recovered	2,174	—
	5,755	—
Balance end of year	<u>\$4,112,482</u>	<u>\$4,106,727</u>
ADMINISTRATIVE COSTS		
Balance beginning of year	\$1,965,985	\$1,522,815
Additions during the year		
Interest charges	65,367	403,064
Financing costs	28,437	—
Professional fees	19,188	21,149
Management fees	15,000	—
Feasibility studies	14,704	—
Office and general	18,673	1,501
Share transfer and corporate fees	8,557	200
Mine maintenance costs	7,955	17,256
	177,881	443,170
Reductions		
Costs recovered through the settlement of outstanding accounts	5,911	—
Write down of costs as a result of reorganization of bank indebtedness — Note 2	450,836	—
	(278,866)	443,170
Balance end of year	<u>\$1,687,119</u>	<u>\$1,965,985</u>

See accompanying notes

CITADEL GOLD MINES INC.

(formerly Pursides Gold Mines Limited)

STATEMENT OF INCOME AND DEFICIT

September 30, 1980

	Year ended September 30, 1980	Year ended September 30, 1979
Recovery of accounts receivable previously written off	\$ —	\$ 3,521
DEFICIT, beginning of year	<u>424,272</u>	<u>427,793</u>
Deficit, end of year	<u>\$424,272</u>	<u>\$424,272</u>

See accompanying notes

CITADEL GOLD MINES INC.

(formerly Pursides Gold Mines Limited)

STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year ended September 30, 1980	Year ended September 30 1979
SOURCE OF WORKING CAPITAL		
Advances from parent company	\$ 195,064	\$ 287,034
Interest accrued to parent company	65,196	265,792
Issue of shares for cash	1,408,750	—
Issue of shares for settlement of parent company liability	1,320,000	—
Decrease in amount due to parent company	(1,320,000)	—
Recovery of deferred expenditures		
Administrative	456,747	—
Exploration and development	2,174	—
Proceeds from recovery of bad debt previously written off	—	3,521
	<u>2,127,931</u>	<u>556,347</u>
USE OF WORKING CAPITAL		
Reorganization costs	17,455	—
Deferred expenditures		
Administrative	177,881	443,170
Exploration and development	7,929	—
	<u>203,265</u>	<u>443,170</u>
Increase (decrease) in working capital during the period	1,924,666	113,177
WORKING CAPITAL (DEFICIENCY), beginning of period	<u>(1,375,576)</u>	<u>(1,488,753)</u>
Working capital (deficiency), end of period	<u>\$ 549,090</u>	<u>\$(1,375,576)</u>

See accompanying notes

CITADEL GOLD MINES INC.

(formerly Pursides Gold Mines Limited)

NOTES TO FINANCIAL STATEMENT

NOTE 1 — SIGNIFICANT ACCOUNTING POLICIES

Building, machinery and equipment

The company's buildings, machinery and equipment were appraised at \$1,837,000 in March 1969 by Kilborn Engineering Ltd. The purpose of their appraisal was to establish a value pursuant to the terms of a joint venture agreement entered into in March 1969 as described in Note 3. These assets were written down to the appraised amount at that time by a \$201,660 charge to deficit. The appraised value has been adjusted for subsequent disposals and subsequent additions have been recorded at cost.

No depreciation will be recorded on these assets until the mine is put into commercial production.

Deferred expenditures

The company has been engaged in the exploration of mining claims in the District of Algoma, Ontario (The Surluga Properties) through an interest in a joint venture as described in Note 3. The property has not reached the stage of commercial production and all expenditures related thereto have been deferred.

Costs which have been recovered or forgiven are shown as recovered in the statement of deferred expenditures.

NOTE 2 — REORGANIZATION — (See also Note 5)

During the year the company completed the following reorganization:

- a) The company consolidated its authorized share capital on a 1 for 3 basis and increased its consolidated share capital to 10,000,000 common shares without par value.
- b) Indebtedness to the parent company of \$1,320,000 was exchanged for 1,056,000 consolidated shares.
- c) The company issued an additional 672,000 consolidated shares to its parent in exchange for \$840,000 in cash.
- d) The company completed the private placement of 325,000 common shares in exchange for \$568,750 in cash.
- e) The bank indebtedness of the company was settled through the payment of \$840,000 in cash. Accrued interest and other costs in the amount of \$450,836 were forgiven by the bank in exchange for a royalty of \$10 per ounce of gold produced from the company's mining property to a maximum of \$450,000.

The costs of share transfers and corporate fees were capitalized. Travel and related costs of the reorganization and private placement have been deferred. The forgiven interest has been shown as a cost recovered as a result of the reorganization. The royalty obligation has not been recognized in the accounts of the company.

The reorganization has resulted in the resignation of the receiver and manager of the company in July 1980 and in the removal of the denial of opinion by the company's auditors in their report.

NOTES TO FINANCIAL STATEMENT

NOTE 3 — JOINT VENTURE

The company entered into a joint venture agreement in March 1969 with Pango Gold Mines Ltd. to further the underground exploration and development of its mining properties. Initially, Pango assumed management and earned a 65 per cent participation right by an expenditure of a minimum of \$650,000 on the properties. In March 1970, Pango returned management of the joint venture to the company. The company remains as manager as long as it actively continues its efforts to put the mine into commercial production.

By virtue of making certain expenditures in 1970, the company's recorded interest in the joint venture was increased to 42 per cent. Because Pango did not exercise its option to purchase the buildings and equipment, these assets remain the unencumbered property of the company.

The net profits of the joint venture will be payable to Pango and the company in accordance with their registered ownership, subject to prior payment, pro rata, to Pango of \$500,000 and to the company of its expenditures incurred under the joint venture.

NOTE 4 — DUE TO PARENT

Prairie Pacific Energy Corporation, the parent of the company, has advanced funds in addition to those forgiven in the reorganization described in Note 2. These advances bear interest at prime plus 2 per cent per annum and are secured by a demand debenture securing all the assets and undertakings of the company to a maximum of \$2,000,000.

NOTE 5 — SHARE CAPITAL

The share capital of the company is as follows:

	1980		1979		
	Shares	Amount	Shares Restated Note 2	Shares as Previously Stated	Amount
Authorized	10,000,000	—	1,666,667	5,000,000	
Issued					
Balance beginning of year	1,124,500	\$5,784,564	1,124,500	3,373,500	\$5,784,564
Issued during year					
for cash	997,000	1,408,750	—	—	—
forgiveness of debt	1,056,000	1,320,000	—	—	—
Balance end of year	<u>3,177,500</u>	<u>\$8,513,314</u>	<u>1,124,500</u>	<u>3,373,500</u>	<u>\$5,784,564</u>

NOTE 6 — REMUNERATION

No direct remuneration was paid by the Company to directors and senior officers during the years ended September 30, 1979 and 1980.

Citadel Gold Mines Inc.

Fast Facts

- 76 per cent owned by Prairie Pacific Energy Corporation.
- has a 42 per cent interest in a joint venture gold mining project at Wawa, Ontario.
- reserves at Wawa are estimated, by consultants, to be 1.6 million tons established, with bullion recovery of 93.9 per cent. Average Grade of .138 ounces gold per ton cut and diluted.
- there is an established mill on the property, and development has taken place in a 950-foot vertical shaft down to the 7th level.
- a large ton, low cost, cut and haul mechanized mining operation is proposed, with additional investment of \$5 - \$6 million required to improve mining and milling facilities and also provide \$1 million working capital.
- the grade of ore compares favorably to other projects coming on stream which are economically viable with ore grades as low as .1 ounce of gold per ton.
- the mill on Citadel's property will be available for custom milling for other developments in the area.
- Citadel is the owner of the mill.

INTERIM FINANCING

- Citadel has completed a private placement of 325,000 shares at \$1.75/share to net the company's treasury \$540,312.50. These funds will be used for general corporate purposes and preliminary work on the property.

